“Collateral Damage” of Mortgage Fraud

Mortgage Fraud affects everyone in the mortgage market.

Even <u>before</u> the fraud is uncovered, Mortgage Fraud affects innocent homeowners:

- Fraud artificially inflates housing market values and therefore reduces affordability for new purchasers; and
- Existing homeowners unwittingly refinance based on artificially inflated values.

Once the fraud is discovered, Mortgage Fraud has several consequences:

- Homeowners who have borrowed against the artificially inflated market now have higher mortgage payments and higher foreclosure rates;
- Mortgage lenders begin suffering losses due to foreclosure;
- Neighborhoods hit by foreclosures begin losing value;
- Neighborhood property owners sell out prematurely because they know housing values are headed for a correction; and
- Property owners who don’t sell face illiquid housing markets.

And, once news of the fraud spreads, additional consequences follow:

- Mortgage lenders leave housing markets or neighborhoods where fraud has increased the uncertainty of housing values and made questionable the credit quality of potential borrowers;
- Lenders suffer increased losses and higher transaction costs associated with the repurchase of fraudulent loans previously bundled & sold in the secondary market;
- Issuers of mortgage-backed securities set higher performance standards to compensate for the expected increase in fraud losses; and
- Credit becomes less available and potentially higher-priced for all borrowers, especially those in areas affected by fraud.

(Source: Collins, M. Cary, Ph.D., Department of Finance, College of Business Administration, Bryant University, Mortgage Fraud’s Impact on Housing Markets: An Atlanta Case Study in Neighborhood Collateral Damage.)